

# COST *and* MANAGEMENT

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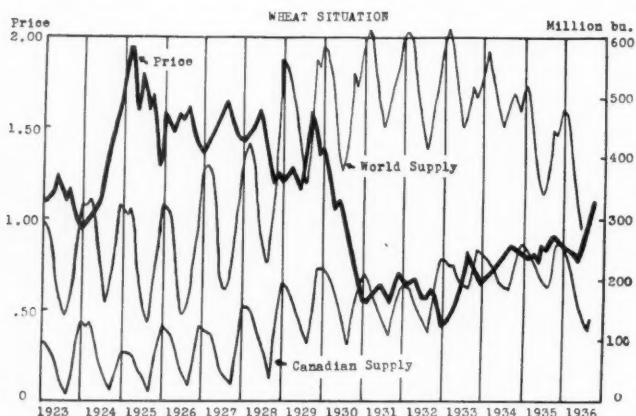
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# Wheat Trend Heads Towards Higher Prices

Rapid Shrinkage in Surplus Stocks Brings Price Up to Prosperity Level—Cycles of Seven Lean and Seven Fat Years Completed

THE past three months brought more favorable change in the wheat situation as affecting Canada, than any other period since 1924. A sharp rise in the price is supported by a statistical position which shows rapid shrinkage in world stocks.

The main trends are indicated by chart herewith. It covers the fourteen years since the war and the adjustments immediately thereafter. The period breaks into two almost even halves, which might fairly be called the seven lean and the seven fat years. The difficulty, so far as Canada is concerned, is that the fat years with plentiful and cheap wheat mean a low return from this leading product. So long as we have a surplus to export, we prefer the lean year with their high prices.



At the end of the crop year, sometimes called the carry-over point, from 1923 to 1928 inclusive, the amount of wheat remaining in Canada was sometimes only a few million bushels, and never over about 30 millions. In other words, we cleaned out the old crop before the new one came in. The world visible supply at corresponding dates was well under 200,000,000 bushels until 1928. Even at the

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peaks, the world supply did not run over 400 million bushels, with Canada's share much less than half. The price of No. 1 Manitoba Northern, which is usually representative of wheat as a whole, ranged anywhere from one to two dollars per bushel.

Nevertheless the seeds of over-supply were planted in those years. Nearly every year, after 1924, found the supply a little greater, and the price a little easier. A tremendous Canadian crop in 1928, with good yields about the same time in some other countries, changed the situation from under-supply to over-supply. The Canadian carry-over jumped to about 200 million bushels, and the world carry-over to about 600 million bushels. At first the price was not seriously affected, because we were still in a general business boom. But when this boom cracked late in 1929, wheat started one of the biggest price declines in its history. It was over \$1.50 for a while in the autumn of 1929, but it ended 1930 at less than 60 cents.

The depression cut down wheat demand, because people turned to cheaper foods, and several importing countries levied import duties on wheat and flour to encourage home production. Wheat was a drug on the market from 1929 to the end of 1934. The Canadian pools had accumulated stocks which, through their financial difficulties, the Dominion government had eventually to take in hand. The price dropped for a time to less than 50 cents for the No. 1 grade, and for inferior grades it was so low that it hardly met shipping costs from remote points in the west.

The depreciation of the United States dollar in 1933 brought some active buying of wheat as of other commodities. Though this did not last, the foundations for recovery in wheat were laid about that time. The peak of world stocks declined each year from 1933. Prices worked slowly but surely upward.

The current rise of course originated in the drought on this continent last July. With evidence that yields would be greatly curtailed, prices have moved sharply up. The world stock at latest available date was under 300 million bushels for the first time since 1928. The Canadian supply, which had remained high through 1934 and 1935, and which consequently represented a greater proportion of the world stock than ever before, began to shrink. There has been heavy buying of Canadian wheat for British and foreign accounts during the past three months.

The figures herein dealt with of course represent a very small proportion of total world production. It is estimated that world production runs to well over three billion bushels a year. The United States, France, Italy, Germany, Spain, and India, as well as Canada, Argentine and Australia, are big producers, but the former group are also large consumers and often importers. It is the three last-mentioned that provide the big surpluses for export, which supply Great Britain and other importing nations.

# The Natural Business Year

THE work of the Natural Business Year Council of the United States was reviewed in a recent news-letter as follows, together with the views of several representative lines of business:

## Formation of Council

The natural business year council was formed in November, 1935, by representatives of the following organizations: Robert Morris Associates, National Association of Credit Men, New York Credit Men's Association, Dun and Bradstreet, American Management Association, National Association of Cost Accountants, American Trade Association Executives and the American Institute of Accountants.

## Initial Steps of Campaign

Soon after its formation the council issued a four-page statement entitled "The Natural Business Year as the Proper Fiscal Period." An article on the same subject appeared in "Domestic Commerce", publication of the bureau of foreign and domestic commerce, and the council obtained reprints of this article. It received from the American Institute of Accountants copies of a chart for use in determining the natural business year of a business enterprise. It also received from the Institute copies of a list of natural fiscal closing dates prepared by the bureau of business research, University of Illinois.

Through the national organizations participating in the campaign, the council encouraged the formation of local or state natural business year councils.

## Research

Immediately after its organization the council undertook to prepare an improved list of suggested fiscal closing dates. In doing so it relied chiefly for its material on studies previously made by the University of Illinois and the American Institute of Accountants, analysis of actual closing dates of companies listed in "Moody's Industrials" and data supplied by co-operating organizations. In verifying dates tentatively selected, it corresponded with individual company officers and with trade associations. The council has published a tentative list and is now preparing to publish a final list of fiscal closing dates for more than 200 branches of industry. The bureau of foreign and domestic commerce has assisted unofficially by reviewing dates tentatively selected.

## Literature Distributed

The following tabulation shows the number of pamphlets and other material distributed by the council:

Basic statement .....	74,700
Chart for determining a natural business year .....	2,500

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### List of closing dates:

University of Illinois .....	650
N. B. Y. council .....	4,400
News Letters (1, 2 & 3) .....	625
"Domestic Commerce" reprint .....	6,500
<b>Total .....</b>	<b>89,375</b>

### Magazine Articles

Articles presenting arguments favoring the natural business year have appeared in a number of publications. Some of these have been prepared by members of the council; others by the staff of the periodicals themselves. Among the magazines publishing material on the subject are: Credit Executive, Credit and Financial Management, Forbes Magazine, Domestic Commerce, The Journal of Accountancy, Modern Finance, The Controller and The Tax Magazine.

### Addresses

Approximately 96 public addresses on the natural business year have been made during the past year by members of the council and others active in the campaign. Many of these were arranged by the council at the request of various organizations.

### Newspaper Publicity

The activities of the council have been accompanied by widespread newspaper publicity. It is estimated that more than 500 articles on the activities of the council and the group co-operating in its work have appeared in daily newspapers.

### Co-operation of Other Organizations

In addition to groups actually represented in its membership, the council has received substantial aid from the Controllers Institute of America, the Corporation Trust Company, the New York Stock Exchange, Prentice-Hall, Inc., Weil, McKey, Pearson & Co., and other national organizations.

### Co-operation of Government Departments

Several agencies of the United States government have given the council valuable assistance.

**Treasury Department**—The bureau of internal revenue has provided the council with statistics relating to actual changes of accounting periods approved by the commissioner of internal revenue during the twelve-month period which ended on May 31, 1936. It has also undertaken to provide monthly statements keeping this information current.

**Securities and Exchange Commission**—Representatives of the securities and exchange commission have expressed interest in the movement in the belief that financial statements as of the close of natural business years are more accurate and more helpful to investors.

**Department of Commerce**—The department of commerce has been of very substantial assistance in two ways. Through its publication,

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"Domestic Commerce," it has called the attention of thousands of business men to the activities of the council. The bureau's industrial division chiefs reviewed the tentative list of suggested fiscal closing dates and checked the dates listed against statistics in its own files.

### State Activities

The council has persistently urged that accountants, bankers, credit men and others unite in each state to carry on a local campaign in behalf of the natural business year. As a result constructive activities have been undertaken in 30 states and the District of Columbia.

### Trade Associations and the Natural Business Year

During the past six weeks the natural business year council has been attempting to verify its tentative list of suggested fiscal closing dates by direct correspondence with trade associations representing the industries affected. The response by trade associations has been gratifying. The following excerpts from letters received will indicate the nature of many of the replies:

#### Jewelry

"Referring to the selected dates of November or March for the manufacturing jewelers and silversmiths, the writer is of the opinion that the last day of March would be the better date. While it is probably true that most manufacturing jewelers have practically completed their manufacturing by the last day of November, nevertheless it is also true that during the early part of December there is usually somewhat of a rush to ship out so-called "fill-in" merchandise from stock for the Christmas trade. Furthermore, the receivables would be at the highest point at that date. The last days of March would find the receivables at the lowest point and, to a certain extent, the inventory would also be down, although in many cases new sample lines would be built up during the months of January, February and March.

"Referring to the jewelry industry as a whole, it is my opinion that the closing dates should be as follows:

"Retail jewelry, last day of January.

"Wholesale jewelry, last day of February.

"Manufacturing jewelry, last day of March.

"We will be very glad to hear from you about the further progress of this plan."

*The Jewellers Board of Trade.*

#### Steamship Companies

"... I note that you suggest the last day of September. I shall be glad to take this up with our committee just as soon as the opportunity presents itself, and in the meantime I can say that the chairman of the committee, with whom I have conferred on this subject, is in agreement with your selection."

*American Steamship Owners' Association.*

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### Creameries

"... The closing dates as at the end of either February or March, as shown in your listing, seem to be favored to a considerable extent in the dairy industry according to such information as we are able to secure. Not all members of the industry close on those dates, however, some using the calendar-year period.

"February and March appear to be the most liquid periods in the industry due to the seasonal nature of its production, which is probably the principal reason for the adoption of such closing dates."

*American Association of Creamery Butter Manufacturers.*

### Booksellers

"... Most booksellers at the present time use the regular calendar year as their fiscal year.

"We do believe that July to June would be the most advantageous fiscal year for the book trade . . ."

*American Booksellers Association.*

### Florists

"... I note you suggest the last day of September as being a suitable date for florists.

"We do not agree with you on this as it is our experience here after dealing with more than 5,000 prominent florists throughout the United States that their season ends as of June 30th and begins as of July 1st. . . .

"We trust the above will give you the information desired . . ."

*The Florists' Telegraph Delivery Association, Inc.*

### Cordage Manufacturers

The manner in which one trade association is co-operating with the council is indicated by the following circular letter which the Cordage Institute has sent to all of its members requesting information desired by the council:

"Cordage Institute is in receipt of a letter from the natural business year council, New York, N. Y., relative to the closing date selected for cordage manufacturers for their fiscal year. This organization advises that they have been conducting extensive research during the past six months and have prepared a tentative list of suggested closing dates for various industries. This list has been unofficially reviewed by government departments. They expect to publish a final list, but before doing so they are asking trade associations for opinions as to the date selected for the branches of industry which they represent.

"The fiscal closing date which they have selected for the cordage manufacturers is the last day of September. They want us to indicate the date we prefer, stating reasons, if our knowledge does not bear this out.

"It would seem that the only information I can give them is to advise the closing dates of various members of Cordage Institute,

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without identification with individual companies. Therefore, will you please return this to me, filling out the questionnaire below.

Yours very truly,

J. S. McDANIEL,

*Secretary.*

Yes

No

"We operate on a calendar-quarter basis .....  
(Check)

"The closing date for our fiscal year is .....

"Company: .....

"Date: ....."

### Automotive Parts

"... All experience prior to 1935 would lead to the conclusion that closing of the business year on the last of October or November would be satisfactory to the accessory and parts manufacturers in the automotive industry. This was due to the fact that prior to the fall of 1935 the new automobiles were first shown in the first week of January, and consequently production of parts and accessories for these automobiles started in the preceding November and December.

"However, starting with the fall of 1935 the new models have been brought out during the early part of November. This change of date has resulted in shifting the low point of the automotive parts and equipment manufacturers' yearly cycle approximately three months ahead. . . ."

*Automotive Parts and Equipment Manufacturers, Inc.*

### Colleges

"... I have made an examination of the financial reports of colleges and universities which are on file in this office, for the purpose of determining the dates used for the closing of their financial records. I have examined approximately 250 reports and have determined the following facts:

66% of the institutions close their fiscal operations June 30.

10% of the institutions close their fiscal operations August 31.

6% of the institutions close their fiscal operations July 31.

5% of the institutions close their fiscal operations May 31.

Fifteen other dates were mentioned by the remaining 13%.

"... many of these institutions are governed by the practices of the state governments which control them. For example, a large proportion of the institutions closing their books on August 31 are state-supported institutions in Texas; this practice being dictated to these institutions by the state government. . . ."

*Financial Advisory Service of the American Council on Education.*

### Cotton Trade

"Your letter addressed to the American Cotton Co-operative Association has been referred to me. In effect, this organization is

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a national cotton merchant and our closing date for our books is exactly in line with your suggestions (last day of July).

"I think some sensible national program, as outlined by you, would certainly stop the log-jam that many of us have at periods of the year in closing corporate books and would tend to distribute auditing work more evenly over the year."

*The American Cotton Grower.*

### Retail Hardware

"In the great majority of retail hardware establishments, the natural business year conforms with the calendar year. This is due to the fact that January and February are the poorest months from a sales standpoint, enabling the merchant to take his inventory and make his adjustments with the least interference to his normal activities.

"There are some exceptions, of course. These are found particularly in the south where there are many stores which end their fiscal year on June 30th. This is due to the fact that their seasonal variation is markedly different than in most other sections of the United States."

*The National Retail Hardware Association.*

### Meat Packers

"The selection of a year ending October 31 was brought about by the fact that at the end of October pork-packing companies have completed what they consider a normal cycle of operations. The marketing of hogs by live-stock producers is a somewhat seasonal matter. The numbers offered for sale begin to increase in the fall and early winter, usually reaching a peak in January or February; this is followed by a decline, a seasonal peak in May or June, and very small marketings in July, August, September and into October. The pork packer characteristically accumulates fairly heavy supplies of product in cure and storage during the winter months, with the expectation of marketing the excess during the summer, and reducing his inventories to a low point about the end of October.

"The seasonal character of pork packing is not quite so pronounced as it was a good many years ago, but it is still important enough so that all the larger operators figure their natural year as ending in the fall. By the end of December they have embarked on a new season of product accumulation, and naturally that would be a poor time for them to close their books. Many of the small local packers, however, keep their accounts on a calendar-year basis, as they are less affected by the seasonal variations than are the larger units."

*Institute of American Meat Packers.*

## U. S. Law Against Price Discrimination

**F**Ollowing the attempt made by the Government of Canada to legislate against price discrimination in business, the United States has taken a similar step, on a somewhat more elaborate scale. This is known as the Robinson-Patman Act, approved in June this year. Though in form it is merely an amendment to a law "against unlawful restraints and monopolies" which dates back to 1914, in effect it introduces a new principle into public policy in the United States.

A great deal of attention is being given to this matter in the trade and business press of the United States. A very thorough study of its possible effects has been made by Willard L. Thorp and Edwin B. George, and published by Dun & Bradstreet, Inc. They point out that "Enough is now known of the Robinson-Patman Act to make generally clear (1) that many aggravating uncertainties lurk in its language which only the courts can resolve, and (2) that these uncertainties are quite secondary to the fact that a new working principle has been injected into business life which promises definitely to alter existing practices and trade relationships."

The text of the Act is reproduced below; the section headings refer to sections of the previous law, but the meaning of the clauses is generally clear. This is followed by some of the remarks of Thorp and George, especially in connection with prices and costs.

"Sec. 2 (a) That it shall be unlawful for any person engaged in commerce, in the course of such commerce, either directly or indirectly, to discriminate in price between different purchasers of commodities of like grade and quality, where either or any of the purchases involved in such discrimination are in commerce, where such commodities are sold for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, and where in effect of such discrimination may be substantially to lessen competition or tend to create a monopoly in any time of commerce, or to injure, destroy, or prevent competition with any person who either grants or knowingly receives the benefit of such discrimination, or with customers of either of them: **Provided**, That nothing herein contained shall prevent differentials which make only due allowance for differences in the cost of manufacture, sale, or delivery resulting from the differing methods or quantities in which such

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commodities are to such purchasers sold or delivered: **Provided, however,** That the Federal Trade Commission may, after due investigation and hearing to all interested parties, fix and establish quantity limits, and revise the same as it finds necessary, as to particular commodities or classes of commodities, where it finds that available purchasers in greater quantities are so few as to render differentials on account thereof unjustly discriminatory or promotive of monopoly in any line of commerce; and the foregoing shall then not be construed to permit differentials based on differences in quantities greater than those so fixed and established: **And provided further,** That nothing herein contained shall prevent persons engaged in selling goods, wares, or merchandise in commerce from selecting their own customers in bona fide transactions and not in restraint of trade: **And provided further,** That nothing herein contained shall prevent price changes from time to time where in response to changing conditions affecting the market for or the marketability of the goods concerned, such as but not limited to actual or imminent deterioration of perishable goods, obsolescence of seasonal goods, distress sales under court process, or sales in good faith in discontinuance of business in the goods concerned.

“(b) Upon proof being made, at any hearing on a complaint under this section, that there has been discrimination in price or services or facilities furnished, the burden of rebutting the prima-facie case thus made by showing justification shall be upon the person charged with a violation of this section, unless justification shall be affirmately shown, the Commission is authorized to issue an order terminating the discrimination: **Provided, however,** That nothing herein contained shall prevent a seller rebutting the prima-facie case thus made by showing that his lower price or the furnishing of services or facilities to any purchasers was made in good faith to meet an equally low price of a competitor, or the services or facilities furnished by a competitor.

“(c) That it shall be unlawful for any person engaged in commerce, in the course of such commerce, to pay or grant, or to receive or accept, anything of value as a commission, brokerage, or other compensation, or any allowance or discount in lieu thereof, except for services rendered in connection with the sale or purchase of goods, wares, or merchandise, either to the other party to such transaction or to any agent, representative, or other intermediary therein where such intermediary is acting in fact for or in behalf, or is subject to the direct or indirect control, of any party to such transaction other than the person by whom such compensation is so granted or paid.

“(d) That it shall be unlawful for any person engaged in commerce to pay or contract for the payment of anything of value to or for the benefit of a customer of such person in the course of such

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commerce as compensation or in consideration for any services or facilities furnished by or through such customer in connection with the processing, handling, sale, or offering for sale of any products or commodities manufactured, sold, or offered for sale by such person, unless such payment or consideration is available on proportionally equal terms to all other customers competing in the distribution of such products or commodities.

"(e) That it shall be unlawful for any person to discriminate in favor of one purchaser against another purchaser or purchasers of a commodity bought for resale, with or without processing, by contracting to furnish or furnishing, or by contributing to the furnishing of, any services or facilities connected with the processing, handling, sale, or offering for sale of such commodity so purchased upon terms not accorded to all purchasers on proportionally equal terms.

"(f) That it shall be unlawful for any person engaged in commerce, in the course of such commerce, knowingly to induce or receive a discrimination in price which is prohibited by this section."

"Sec. 2. That nothing herein contained shall affect rights of action arising, or litigation pending, or orders of the Federal Trade Commission issued and in effect or pending on review, based on section 2 of said Act of October 15, 1914, prior to the effective date of this amendatory Act: **Provided**, That where, prior to the effective date of this amendatory Act, the Federal Trade Commission has issued an order requiring any person to cease and desist from a violation of section 2 of said Act of October 15, 1914, and such order is pending on review or is in effect, either as issued or as affirmed or modified by a court of competent jurisdiction, and the Commission shall have reason to believe that such person has committed, used or carried on, since the effective date of this amendatory Act, or is committing, using or carrying on, any act, practice or method in violation of any of the provisions of said section 2 as amended by this Act, it may reopen such original proceeding and may issue and serve upon such person its complaint, supplementary to the original complaint, stating its charges in that respect. Thereupon the same proceedings shall be had upon such supplementary complaint as provided in section II of said Act of October 15, 1914. If upon such hearing the Commission shall be of the opinion that any act, practice, or method charged in said supplementary complaint has been committed, used, or carried on since the effective date of this amendatory Act, or is being committed, used or carried on, in violation of said section 2 as amended by this Act, it shall make a report in writing in which it shall state its findings as to the facts and shall issue and serve upon such person its order modifying or amending its original order to include any additional violations of law so found. Thereafter the provisions of section II of said Act of October 15, 1914, as to review

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and enforcement of order of the Commission shall in all things apply to such modified or amended order. If upon review as provided in said section II the court shall set aside such modified or amended order, the original order shall not be affected thereby, but it shall be and remain in force and effect as fully and to the same extent as if such supplementary proceedings had not been taken."

"Sec. 3. It shall be unlawful for any person engaged in commerce, in the course of such commerce, to be a party to, or assist in, any transaction of sale, or contract to sell, which discriminates to his knowledge against competitors of the purchaser, in that, any discount, rebate, allowance, or advertising service charge is granted to the purchaser over and above any discount, rebate, allowance, or advertising service charge available at the time of such transaction to said competitors in respect of a sale of goods of like grade, quality, and quantity; to sell, or contract to sell, goods in any part of the United States at prices lower than those exacted by said person elsewhere in the United States for the purpose of destroying competition, or eliminating a competitor in such part of the United States; or, to sell, or contract to sell, goods at unreasonably low prices for the purpose of destroying competition or eliminating a competitor.

"Any person violating any of the provisions of this section shall, upon conviction thereof, be fined not more than \$5,000 or imprisoned not more than one year, or both."

"Sec. 4. Nothing in this Act shall prevent a co-operative association from returning to its members, producers, or consumers the whole, or any part of, the net earnings or surplus resulting from its trading operations, in proportion to their purchases or sales from, to, or through the association."

### GENERAL REMARKS

Comment of Thorp and George:

"Since business is a living and sensitive organism, stemming primarily from human beings, it would be merely presumptuous for anyone at this stage to come forward with a knowing document on exactly how it will respond to the new rules laid down for its conduct. Yet the business man cannot await final judicial revelations. The Act became effective on June 19. Transactions previously commonplace now carry a contingent liability of civil or criminal suit.

"Decisions must be made even if they are only to defer decision. However unsure the executive may feel about the meaning for him of the law's awkward details, he can understand its basic drive, and can see that forces unleashed by it are already in motion and must inevitably result in finite changes to which he wants to make the best possible personal adjustment. His chief clues are a handful of partially pertinent legal precedents, legal advices and interpretations now issuing in contradictory profusion (useful and necessary never-

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theless, particularly in crystallizing the important issues), and the steps being actually taken by various enterprises. Utilizing all these aids to the utmost, his decision in the last analysis must still rest on the familiar personal mixture of imagination and common sense necessary to the successful conduct of any business.

"In a situation where uncertainties dominate and yet judgments must be made, there is therefore some excuse for an attempt to sum up even the immature portents which can be drawn from these sources. Taken altogether, their resultants may point the direction if not the range of many of the things to come. If reduced to such common terms as are in them, they can be helpful if they do no more than clarify the positions being taken by naturally opposed interests and the legal and practical footing on which they rest. Where there is agreement among them, the help they give is definite.

### Check List of Possibilities

"The article therefore will endeavor to set up a check list of the possible effects of the Robinson-Patman Law on business practices and distributive relations, against which manufacturers and distributors may wish to examine their own policies.

"It is a marshalling of current views, gleaned from the mass of public and private expressions by responsible business men, lawyers and economists. When those views are conflicting, a brief reference to the underlying reasoning is made where useful and feasible. Unusual points of view are not rejected, if responsibly advanced, merely because majority opinion happens at the moment to oppose them; opinions change, and there can be no harm, during this formative period, in making at least a mental note of plausible guesses.

"Pure questions of law are avoided, save where alternative constructions would differently affect any particular trade practice being considered, in which case the alternatives are merely mentioned. Likewise, no abstract or detailed description of the law itself is included.

"Some of the possibilities cited will apply only to specific types of trades and industries. Naturally, there is no attempt to make the list exhaustive. And again, all of the emphasis is on bringing out possibilities, none on supporting particular conclusions.

### Business Attitudes

"It is neither surprising nor alarming to note that many of the current interpretations are settling into patterns pre-ordained by established conflicts of interest. It is only natural that where two colorable versions of the law are available, individual groups will prefer the one most likely to promote their special welfare. In that time honored way are crucial and necessary test cases made. Even legal opinion on controversial points can logically be influenced by at least three considerations: (1) the retaining industry's sympathy

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or impatience with the broad purposes of the law, (2) the location of that industry's interests in the controversial areas, and (3) the lawyer's attitude towards this type of law. Assembled judgments such as these will naturally differ, yet it is important to know them for some will be upheld. Part of such knowledge is unfortunately excess baggage, being merely legal projections of wishful thinking. Nevertheless, we cannot yet be sure which is which.

### Immediate Conflicts

"In the meantime, although this is the orthodox road to judicial clarification, it has to take us over rocky ground very disturbing to business traffic. The rationalized positions being taken by some complementary buyers and sellers must inevitably sharpen normal conflicts. Some of these positions are taken for strategic reasons only, in an attempt to rid one or the other group of an inheritance of what it regards as bad practices. In this fashion the way is paved for a restoration of those considered beneficial if kept under the moving group's control. Naturally, the parties affected by this manoeuvering are resentful, even though it is done in the name of a law. The public has already witnessed some of this attacking and counter-attacking in the field of advertising allowances. Other actual or potential examples are included in the check list to follow. Some of these embattled elements may still be found standing grimly by their guns, whatever the evolution of issues in the meantime, until the courts do their difficult job and break the various deadlocks.

"In less martial spirit, industries with now particular spoils at stake are doing their manoeuvering with relation to the law itself. Some are moving to the extreme safe side, cutting out anything that savors of discrimination, and waiting (even some of these actions may be in line with their real desires). Others are doing nothing and waiting. Still others are taking a variety of middle ground positions, some of them perhaps foreshadowing the shape of things to come. Illustrations of all these attitudes will be found in the check list.

### The Check List

"To avoid monotony, the authors have resisted the impulse to safeguard each one of the following check list items with an explanation that they were assembled from a wide assortment of current convictions. The possibilities are often stated flatly, but nevertheless remain merely possibilities. This introduction is intended to qualify them all.

"Of course, the actual developments under the Act depend in substantial part upon the extent and degree of enforcement activity by the Federal Trade Commission, a factor which this survey makes no attempt to forecast. However, quite a number of observers are alive to the possibility that the close restrictions of this law are much more

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apt to promote private suits for triple damages than was ever the case under the old Clayton Act. Such actions are not likely to be discouraged by many members of the legal profession who will see sufficient prospects of success in this new and unchartered area of law as to be worth at least a speculative effort.

"Furthermore, no space is given to discussing the constitutionality of the Act in whole or in part. That is reserved exclusively for the mercies of the legal profession.

"The specific points discussed are grouped under the following heads:

- Products
- Prices
- Allowances and Services
- Brokerage
- Cost Accounting and Allocation
- Channels of Distribution

"The orderly character of the presentation does not imply that the actual effect of the law will be in any way orderly. Many of the developments, which ingenious minds can deduce from the formal phrases of the law, may never happen in reality. Others may take unexpected forms in the process of adjustment to the intricacies of business operation. What ever the initial impact of the law, one can be assured that the final results will appear at points quite unforeseen. Obviously, a summary such as this, of most of the possibilities suggested date, will give an exaggerated impression of the possible influence of the law. So many prophecies from so many sources on so many subjects cannot be simply added up to make a forecast of the ultimate pattern.

"Furthermore, the exact application of many of these generalized suggestions will vary from industry to industry and according to the state of facts. This is especially true of the basic requirement underlying the whole act, that injury to competition or a competitor must be demonstrated. Thus, the product of an industry may be so small a part of some other product of which it eventually becomes a part, viz., shoe laces sold to shoe manufacturers, that the most erratic price policy could not be charged with causing injury to competitors among the purchasers (although it is conceivable that a competing seller might have a case). By the same token, disputes will progressively arise as the primary product retains identity or value in the subsequent product, as in the successive stages of steel manufacture. Likewise a given practice logically improper under the law, such as special packaging for a valuable product, may play so small a part in the total transaction that specific injury would be impossible to prove in court. One other variable is the area of competition, a matter which is basic and whose definition may likewise result in

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narrowing the scope of the Act. All of these situations illustrate the peculiarly exasperating problem inherent in this kind of law and arising from the application of principles to slow gradations, where natural dividing lines are conspicuous by their absence and the areas of application must be arbitrary.

### Prices

**8. Simplified Price Structure.** Price structures in general are likely to be simplified because of the futility of old methods of glossing discriminatory treatment of customers by expressing it indirectly, as through individual price concessions or special allowances and services. The same result can be expected to follow from the elimination of many customer classifications resting purely on discriminatory bases.

**9. One-Price Policies.** Trends toward a one-price policy may be strengthened, (subject to reservation under Section 12 below, "Reduced Quantity Spreads") particularly in industries where trade sentiment is already moving in that direction. A few large industries have already taken the step. Such actions of course are premised on the point of view that the law merely provides limits to discrimination, and does not require that discounts are compulsory wherever economies are earned.

**10. Emphasis on Quality.** In the previous section on "Products" attention was called to the possibility that any trend toward standardization would be accompanied by an increased marketing emphasis on price. The reverse of course must also be true. To whatever extent prevailing confusion in the price field is relieved, selling effort should shift to quality.

**11. Discount Bases.** Attorneys frequently advise that manufacturers may still base their discounts in any manner they see fit, either on specific orders, annual or semi-annual purchases, cumulative purchases, or otherwise. Relative costs, computed and allocated more carefully than has been the general custom would be a necessary by-product of such distinctions. The legitimacy of this kind of tolerance is defended, naturally enough, by certain prominent distributors. Some manufacturers on the other hand will try to use the law to get away from quantity discounts based on cumulative quantities.

**12. Reduced Quantity Spreads.** The most common expectation is that previously existing spreads between prices for different quantities will be somewhat diminished, on the assumption that they have exceeded any demonstrable economies in cost. Some contrary opinion has been expressed over the possibility of realizing even this most basic purpose of the law. Claims have been made that many large purchasers are not now accorded the price advantage which can be justified by differences in the cost of serving them. The most usual answer to this is that the law does not require any quantity discount at all but merely sets a limit to its amount.

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"The issue is no slight one, even though popular opinion at the moment may be one-sided against the contention that large orders carry small ones. It is no secret to marketing men and cost analysts that small orders in the general run of business are relatively expensive. That issue, however, would be regarded by many of them as lying between very small business and middle-sized business; it would be hard to convince them that that kind of disadvantage to "large orders" runs all the way to super-business levels, and even to immediate business not so "super" where the potentialities are big and attractive. Probably all would agree that there have been at least a few outstanding revelations of large purchasers obtaining concessions beyond the limit of economies involved.

"As matters now stand, proponents of the law are quite willing to take their chances on discoveries that large buyers are being brutally treated by the small and medium. They might concede that the very small and irregular customer rides free and that relations all the way up the business scale lack consistency. Their emphasis is on what they conceive to be the serious and harmful excesses at the top of the scale. And on the other hand they may be in for a surprise. Available data are not sufficiently complete or representative to establish either case out of hand. This is at least one issue on which both business at large and particular warring elements seem likely to win, through the development of better knowledge of costs.

"As for the legal aspect—must manufacturers give large buyers the discounts they earn—there is little that can be done until the court speaks. The intention of Congress seemed plainly enough against such an interpretation and most business reports to date indicate a tendency to depend on that intention, i.e., regard the law as setting up maximum differentials but not requiring them.

**"13. Ceiling Discounts.** The law grants authority to the Federal Trade Commission to fix quantity limits under certain conditions, chief of which is the fact that available purchasers in greater quantities are so few as to lead to monopoly. Some commentators show little concern over this authorization on the ground that they cannot locate situations at present to which the provision would appear to be applicable. At most, they regard it as a blow at "bigness" only in its grossest and potential forms. However, some specific situations have already come to light where the top quantity discount has never been practically available to more than a few recognizable buyers, and doubtless more will emerge. A number of attorneys point out that the Act does not provide clear-cut standards of application, and therefore expect this provision to be declared unconstitutional if any attempt is made to apply it.

**"14. Number of Quantity Classes.** In order to give each purchaser the full economy arising from the quantity taken, the number

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of quantity classes may be increased. Furthermore, in some cases, quantity discounts may be individually negotiated, rather than attained from fixed schedules, because of the desire to graduate them more closely to actual quantities taken.

"In some industries, the quantity classes may be related simply to some unit of delivery believed by the seller to mark a clear-cut breaking point in costs, as for example, a car-load lot.

"One group of analysts insists that under the law, broad quantity discount brackets are thrown in jeopardy. This argument rests on the proposition that prices between any two like customers may be compared in determining the propriety of a price structure. If two are compared who fall on the two sides of a boundary line between two quantity discount brackets, then if the step in discount is considerable, it may open the way to a charge of discrimination. For example, if a commodity priced at \$1.00 has a price schedule giving a quantity discount of 10 per cent for 1,000 units or more, then a purchaser taking 950 units will pay \$950 while one taking 1,050 units will pay \$945.

"Of course, if the quantity brackets had some relationship to some unit which definitely meant a cost reduction, such as the last unit in a package or a carload, then it is conceivable that purchase of that unit could result in a net reduction in the total bill. However, where quantity is reflected merely in the gradual reduction of costs, almost imperceptibly unit by unit, the exact reading of the law would threaten anything other than a minutely detailed schedule of quantity brackets, since any marked breaks could create a discrimination among buyers in a small range about the dividing line. How important this line of argument may be, depends upon the extent to which the Commission and the Courts are prepared and eager to utilize the intricacies of higher mathematics in applying the law.

"15. **Small Orders.** It is well known that the cost of filling small orders, especially for broken packages, is often disproportionately large, but seldom recognized in price. It is therefore argued that manufacturers and wholesalers may have to consider establishing price spreads (where selling across State lines) between two sizes of small orders as units vs. dozens, or eliminating such small orders because of the discrepancy between costs and prices, or the plain lack of accounting facilities where with to measure relative costs. This line of argument, of course, runs up against the widely held theory that discrimination in favor of small orders will continue to be legitimate and that only spreads unfavorable to them are hit by the law. In this case also the general availability of offers or the lack of genuine injury to competition is counted on by some to take care of the problem.

"As a practical operating matter, there seems to be some likelihood that prices on very small orders will be revised in the light of

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increased knowledge of costs which this law promises to bring about. As between manufacturer and wholesaler, it may tend to concentrate more closely the "breaking bulk" function in the latter's hands. A real blow may be struck in the midst of these readjustments of hand-to-mouth buying because of the high cost it entails.

**"16. Factory Prices vs. Delivered Prices.** The Act does not deal explicitly with the problem of delivery charges and allowances as a part of price. Substantial opinion at the moment appears to hold that the law does not require the measurement of price discrimination in terms of "factory prices." This reasoning is based upon Congressional rejection of a provision dealing specifically with freight differentials and upon the unquestioned fact that freight differential systems are a major issue in their own right. So basic a change could not be made as the incidental consequence of a law primarily directed at other problems.

"It can also be argued that the privilege of quoting a delivered price is a necessary corollary of certain rights of sellers, such as that of seeking customers on a national rather than a local basis. For instance, a seller advertising his product on a national scale might for unimpeachable reasons desire to advertise a uniform price to consumers.

"On the other hand, many believe that delivery charges are controlled by the word "indirect" in Section A, or by the insistence on proportionately equal allowances for services in Sections D and E. Furthermore, they point out that the Federal Trade Commission has consistently taken the position that even though a single principle, such as delivered prices (including basing point systems) be applied to all transactions, the result should be regarded as price discrimination.

"Aside from these direct conflicts, detached observers have remarked that a considerable stimulus to industrial decentralization would be provided by any attempt to prohibit delivered prices. Producers selling in a national market would hardly be willing to hand over distant but important portions of it to local rivals without some kind of struggle. Local or regional factory branches are of course the most effective way to equalize freight.

"It must be remembered that the delivery issue does not arise in any of the foregoing forms where "competition" as specified in the Act is not affected. This is true of all the matters dealt with in this study, but an occasional reminder would seem to be justified by the ease with which this first of all tests of error can be lost sight of in the welter of detail.

**"17. Non-uniform Delivery Practices.** Inconsistency in delivery policies is already common, and their very looseness could be made to support systematic discriminations. Standards of the right and

## U. S. LAW AGAINST PRICE DISCRIMINATION

wrong use of this function would have to emerge, even should the law be construed not to directly control them.

"Even those who feel that the law does not interfere with delivery charge and allowance practices when applied uniformly to all purchasers, recognize that the function is of such an adjustable character as to permit arbitrary differences in the treatment of particular customers and classes of customers, and that lines must be drawn somewhere. As a possible example, could the offer of a rebate amounting to the seller's average cost of freight to any buyer taking his own deliveries, be approved?

**"18. Terms of Sale.** Doubt prevails as to whether or not the law touches terms of sale. They were included in so many words in one of the earlier drafts of the bill so that the elimination of all reference to them adds weight to the contentions of those who say they are not now involved. On the other hand, there are those who say they are not now involved. On the other hand, there are those who insist that terms are so inseparable a part of price in actual competition that to ban unfair discrimination without controlling terms would be not to ban discrimination at all. Much depends on how broad a word "indirect" turns out to be.

Discriminatory cash discounts may be construed as a part of price or as an indirect evasion of the law. If unusually high, even if uniformly offered, they may be subject to attack as not being available for the reason that some small purchasers might not be regularly able to pay cash. It would seem that the factor of uniformity in such matters as cash discount, will be given more importance than height, to the extent that either is significant. One eminent authority regards any percentage of cash discount whatsoever, if uniformly granted as a simple variation of the seller's right to select the kind of customers he desires. To the extent that the discount goes up, even a small customer would usually find a way of scraping up the necessary cash in order to avail himself of so good an opportunity.

"In plain prudence some manufacturers have decided to allow the same rate of cash discount to all buyers, and to scale high rates down to correspond with the conventional worth of the financial function involved. Other discriminatory terms of payment in matters such as due dates and instalment schedules, likewise may have to be brought into line with some consistent standard or other. Even priorities on delivery may come into question.

"Assuming that discriminatory prices may be made to bad credit risks, the amount of such discrimination may have to bear some reasonable relation to the purposes of the Act.

**"19. Unearned Discounts.** Many sellers are interested in the possibility that if buyers take unearned discounts they may be making

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themselves guilty of knowingly inducing an unlawful discrimination in price. The taking of unearned cash discounts is one of the more obvious examples. The seller might also be guilty if he permitted such discounts, depending upon the extent to which his intent is or is not taken into consideration. Some sellers are accepting payment even when the purchaser has improperly deducted the discount, and then billing him for the amount of the discount, thus hoping to clear themselves of any charge of intentional discrimination. This procedure, incidentally, destroys any defense on the part of the buyer that the discount was taken in error. Both cases assume that a similar discount is not extended to competing customers unless they have earned it.

**"20. Returned Merchandise.** It may not be permissible to accept returned merchandise from some customers, with full or partial extension of credit, unless the same privilege is accorded all competing customers.

**"21. Forward Contracts.** Considerable argument rages over the effect of the law on forward contracts those already signed and those coming under the head of future policy.

"Of considerable temporary importance is the question of whether or not discriminatory forward contracts written before the Act was signed will have to be cancelled. Most attorneys insist that the fact of prior contractual obligation is no defense for present price discrimination. As far as actual practice is concerned, it is certain that a great many of them are being cancelled. To the extent that this is done, business now on the books will have to be rewritten.

"As to the problem of new forward contracts, two questions are evident. First, to what extent must they be made available to all customers? Second, if the market changes so that when the contract is fulfilled, a discrimination is present, will judgement be based upon conditions as of the time the contract was signed or time of fulfilment? These problems, plus the fact that the Federal Trade Commission in the Goodyear case took performance as a basis, is undoubtedly discouraging the writing of such contracts at the present time. If the final decision is to permit forward contracts on the basis of reasonable judgement of future business conditions at the time of signature, then the fact that only a small number of buyers would be interested in the device, regardless of the extent to which it was offered, might open up a simple method of favoring selected customers.

**"22. Free Deals.** The principal point of general agreement is that the offer of free deals cannot be restricted to selected customers.

"It also seems clear that where savings are affected through sale of the additional quantity, it is valid as in the case of any other quantity discount meeting the cost test.

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"Where, however, the price reduction is greater than the cost saving, opinions as to the legitimacy of the sales promotion device seems to differ. One school believes that the inability of this class of free deal to meet the literal cost test of the law definitely prevents its use. Others argue that a generally available offer of them in reasonable quantities would satisfy the purpose of the law.

"If this point of view should be accepted, an interesting new question will arise as to when, in different trades, the quantity a man must take to get the free deal is so much beyond his reasonable needs as not to be practically available. It should be added, however, that majority opinion at the moment seems to incline against the possibility of free deals escaping the law's mechanics. However, while the free deals problem clearly falls within the theoretical scope of the law, many feel that the law will do little more than assure uniform offering of such arrangements to all customers. Beyond this, the accounting problem as well as the difficulty of demonstrating injury when the discrimination relates to very small transactions usually but a minor part in the total of many transactions, are used as a basis for arguing a minimum of disturbance in existing arrangements. One of the industries to which free deals are particularly important is already making a cost survey as a basis for future policy.

"One suggestion put forth for making such a deal "generally available" is the use of some device such as coupons to permit those unable to take the entire quantity to participate in the concession made. This suggestion even contemplates the substitution of coupons, satisfying as they would the proportional availability test, for advertising allowances.

"The problems of combination sales and full line forcing are quite similar in character to those discussed above. The net result is a marked hesitancy in their use.

"23. **Overloading.** Some look hopefully at this law as an unexpected help in keeping sellers from overloading their customers, and for that matter in keeping the customers from succumbing of their own accord to discount spreads attached to larger quantities than they need. How much reality there is in this outlook depends of course on how far such spreads for quantity proved to be justified by real difference in costs.

"24. **Changing Market Conditions.** More systematic recording of market data by individual sellers may be stimulated by this Act. Sellers must be certain that changes in price on grounds of changing market conditions are made in good faith and that proof of such changed conditions can be supplied, particularly when discriminatory prices are given within short intervals. A good market record, in the opinion of some observers, may be the best defense against charges of unlawful price manipulation.

## COST AND MANAGEMENT

**"25. Forced Sales.** Section A permits price changes in response to changing conditions, "such as but not limited to . . . distress sales under court process." There is no clear feeling as to whether or not this general language will permit forced sales at discriminatory prices to raise money in times of stress. Even if permitted, the necessity for the forced sale goes back into the area of business judgment and may be particularly difficult to justify at law. If not permitted, the concession would then have to be made to all purchasers, with obvious effects on prevailing prices."

### Cost Accounting and Cost Allocation

**"51. More Elaborate Accounting.** Where differentials are used, accounting methods will have to be thoroughly overhauled in order to permit much more precise cost calculations on individual products, quantities, customers, territories, services, sales and profit returns from particular sales and advertising programs, etc. According to the methods and standards adopted by the Commission and the Courts, profit and loss statements may have to be made computable in terms of numerous divisions and sub-divisions of the total business.

"Aside from the mechanical burden of highly detailed cost allocation, many questions of judgment will arise as to whether particular overhead and promotion costs can be shown to pertain exclusively to certain customers or classes of customers or whether they are merely being imputed to them. This will require a more expert personnel than is ordinarily needed for normal business purposes.

"It is a not uncommon belief that this new and formidable responsibility will add to the law's direct stricture on discrimination in encouraging the use of single price policies.

**"52. Need for Principles.** Methods of treating costs constitute one of the most important new areas of administrative discretion under this law. Observers agree that there is little precedent now available for the solution of difficult problems. Both manufacturers and distributors will have to be alert for signs from the Federal Trade Commission, presumably through early cases, as to the principles which it will evolve.

"One of the basic issues is the extent to which immediate data will be required rather than indirect evidence. In measuring differences in cost for quantities, for example, must the individual be prepared to make his defensive demonstration in terms of the costs involved in the specific transactions about which the charges are made, or can he call upon his general experience in handling such transactions, or still further, can he utilize the general experience of his industry? Not only is the answer important in its own right, since a man must be prepared to defend himself, but some believe that it will be such as to provide a great stimulation to association activity.

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"53. **Time Studies.** Some have already started time studies of all their operations, step by step, and function by function. The purpose is two-fold, (1) to put their pricing practices completely within the law, and (2) because they believe that such records will, in the long run, prove the cheapest form of defense. Many hold that industry studies, while perhaps not conclusive for individual court defense, can be most helpful in establishing safe price structures, and are urging increased trade association activity in the field.

"54. **Cost Disclosure.** A feared by-product of the "burden of proof" provision is that manufacturers who discriminate, even if legitimately, may have to present publicly before the Federal Trade Commission their costs of production at the will of any jealous competitor or suspicious customer who can drum up a *prima facie* case. Some may keep differentials far within permitted bounds through fear of this kind of exposure.

"55. **Slack-Seasonal Orders.** If large slack-seasonal orders are to carry special discounts, production costing will have to take more careful account of whether they are actually processed in off seasons and can be legitimately accredited with lowered costs such as eliminating overtime, earning off-season prices for raw materials, etc.

"Many production schedules will have to be re-arranged to insure that large orders given special discounts because of their "supplementary" or fill-in nature, are actually fabricated in slack seasons.

"As a necessary extension of this aim there may be increased efforts to secure large orders well in advance so as to permit genuine realization of economies in fitting them into the normal production schedule. And the question might also be raised as to how widely "slack season" advantages were available to all customers."

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## COST AND MANAGEMENT

### FOREMEN'S TIME IN PRINTING PLANT

We reproduce below a problem raised by one of our members in the printing trade, and replies from others in this or allied trades:

#### Question

"I would appreciate your opinion, as a member of your Society, regarding a problem which we have to face concerning the distribution of our foremen's wages.

"Large printing firms have to compete with smaller printers where foremen are constantly employed in the different operations of the plant reducing thereby the cost considerably. With this in mind, we have requested our foremen to co-operate with their staff to speed up production. But we find out that it is almost impossible for them to make out time sheets for the time spent, during the day, with the various productive departments. The fact that these chargeable hours are not allowed to the departments increases the cost. In standard cost finding systems for printers, the foremen's wages are distributed in pro-rata to the total cost of each department. After each department has been charged with their portion would it be wrong to devide each amount by the average rate paid to the foreman per hour obtaining thereby the number to be credited to each department and placing us thereby on the same basis as competitors?"

#### Reply No. 1

"I suggest as a solution to the problem that the foreman who works on production should charge his time to the job on which he works at the machine hour rate, the balance of his non-chargeable time for superintendance to be apportioned over the machines or departments supervised in proportion to their importance and production.

"If the jobs on which the foreman's time is spent are many and varied during the day, it is more practical to apportion his whole time as non-chargeable."

#### Reply No. 2

"I duly received your query of September 15th as put to you by a member of the printing trade, and like yourself, I am not quite clear as to what he is driving at. Apparently, his theory is that if the standard cost of a department is \$2.50, and in that case foremen's cost is absorbed to an amount equivalent to 2c per chargeable hour, would it be in order to deduct this and charge the cost per hour as \$2.48? This I cannot agree with.

"The printing trade is in rather a mess so far as cost goes and everybody is selling on a very competitive basis and composition is, for instance, being peddled around Montreal at \$2.00 and I am willing to gamble that there isn't a printing plant in the city that has a cost as low as that. Our own cost is nearly \$3.00. What can we do about it? We have to sell at competitive prices and it is a physical

## FOREMEN'S TIME IN PRINTING PLANT

impossibility even with a 100% capacity to bring our cost down as low as \$2.00. Foremen tend to lower the cost by efficient supervision and if they are put on a strictly productive basis their supervision is, naturally, less efficient and the general production of the department is lower. Price cutting I am afraid is with us until such time as business develops to occupy the trade fully and then true cost will regain their proper perspective."

## HAMILTON CHAPTER GOLF GAME

Hamilton Chapter held a very successful golf event on September 22nd, at Burlington Golf & Country Club. The day, the course and the arrangements made by R. Dawson, secretary of the Chapter, were excellent. In fact everything was reported as perfect except the golf, even such an experienced hand as President Harold Wright taking 11 strokes on one hole. About 30 were present, including five from Toronto, and E. Tailby from Kitchener. Prize winners were: Low gross, Mr. Gilbertson, guest from Toronto; 2nd. low gross, H. Monahan, guest from Hamilton; low net, N. J. White, guest from Hamilton. Members managed to get in on the second low net, however, this honour being shared by Stan. LeBrock and F. Weston, both of Hamilton. A. Hope, guest from Hamilton, won the marathon or high score.

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# Cost Accountants and Present Day Problems

By G. H. CLAMP, F.C.W.A.

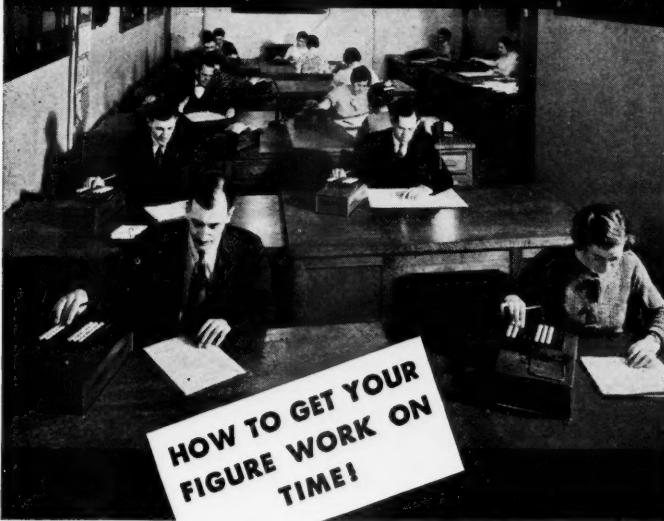
(Part of Presidential Address to the 14th National Cost Conference held by the Institute of Costs and Works Accountants of England).

IT IS important that we should keep a clear head as between cause and effect. Most of our present-day troubles are connected with the inevitable progress of science and there is no human power that I can conceive of that can effectively check that progress. Our problem is rather to attempt to obtain human advantage from that progress and to avoid letting ourselves become slaves of the machine which we may regard as generally typifying progress. Humanity must dominate and control that progress and turn it to good ends. As I see social conditions, we are suffering to-day mainly because of the intensive and unbalanced development following on the Great War, and because of the artificial devices resorted to by nations as the consequence, direct and indirect, of that war. There are, of course, means of hampering this progress of science, and perhaps the surest means would be by the adoption of nationalisation on a monopolistic scale, with an inevitable tendency to cramp initiative and invention. But no one nation could afford to resort to this unless other nations were prepared to follow suit, least of all a nation like ours, which depends so much for its well-being on international trade.

If we are to take a rational view of the probabilities of the near future we must accept the march of science and all that must follow from it. In saying this I am not referring to the resulting benefits in the way of increased comforts and improved standards of life that are enjoyed by each successive generation, but rather to the steady and relentless displacement of manual by mechanical effort. We must, however, consolidate our position after each stage of advance and this involves clear-headed stocktaking and control.

To cost accountants these circumstances have an obvious significance. For example, we have been accustomed to think of factory cost in terms of material, labour and overhead, and the element that most called for the skill and knowledge of the cost accountant was "overhead." The tendency of mechanisation will be to lay more and more stress on the importance of the treatment of overhead and we may have to revise our conception of the elements of cost when the element of direct labour assumes, as I can readily believe that it will eventually assume, a negligible proportion, more particularly in the

# PAYROLLS CAN'T WAIT...



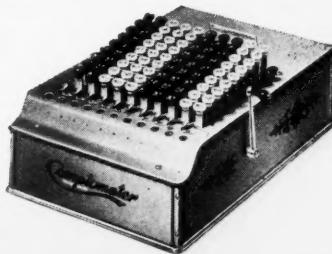
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## COST AND MANAGEMENT

case of "secondary" or manufacturing trades. In the case of "primary" trades, such as building, mining, etc., the process of mechanisation is undoubtedly slower, but here also there is clear evidence of the trend in this direction.

### Tariffs and Reduced Working Hours

The process of mechanisation is not limited to one nation, or to one continent; it is becoming world wide. What then must follow? I see but two solutions. Either the volume of trade must be increased, the luxuries of to-day becoming the necessities of to-morrow, and the man-hour effort remain constant, or, if the volume of trade remains constant, the man-hour effort put forward to produce that volume of trade must fall. It is my firm belief that it is the first of these alternatives that eventually, in the future as in the past, will provide a solution. The greater productivity of each human unit should lead to a higher general standard of life. There is, of course, room for considerably increased trade in home markets, but we are frequently hearing it said that we are reaching saturation point. There is, however, no doubt that it is becoming progressively more difficult to expand our markets at home and that we are forced to look more and more to overseas markets for outlets. But what is the policy adopted by nations in this direction? It is in general diametrically opposed to international trade expansion and fosters the multiplicity of manufacturing units with little or no regard to economy in usage of the world's resources. If prosperity is to return to this country, and the workers are to enjoy a progressively higher standard of living, it is essential that our overseas trade increase. Tariffs can play their part only if manufacturers take advantage of them to increase their efficiency of production and distribution in anticipation of the time when these tariffs shall be removed; and the cost accountant has no mean part to play in securing that measure of increased efficiency which alone, in the long run, can justify the imposition of trade barriers.

As regards the second solution, the difficulty in this direction, as far as this country is concerned, is that we could not make the reduction in working hours unless our foreign competitors made a corresponding reduction. There can, however, be little doubt that a reduction in working hours will eventually come about as the result of the process of mechanisation. It will probably be a gradual process, industry by industry, rather than a simultaneous change.

### Manufactury Units

The reorganisations that have been effected since the end of the war, in some cases as the direct result of the setting up of tariffs, have led to manufacture being carried out by means of larger units. This process brings its own peculiar troubles of centralisation and makes functional control increasingly necessary. This in turn develops

## COST ACCOUNTANTS AND PRESENT DAY PROBLEMS

the technique of the various functions and gives a greater scope to members of our profession than is possible under a system of manufacture by smaller units, by virtue, *inter alia*, of the exercise of their informed judgment in apportioning between departments that have no common interest, expenditure which has been incurred on their joint behalf. There is a tendency to exaggerate the importance of the size of any business or undertaking as though size alone were indicative of efficiency. No greater mistake could be made, for although the efficiency of management is facilitated up to a point by expansion or merger, there comes a time, more particularly in the case of horizontal combinations, where progress beyond certain limits is a handicap to efficiency. It is our function to determine that limit and to determine it in advance of action being taken which may be irretrievable except after great loss.

### Monopolies

We see to-day a marked increase in monopolies, a form of trading that was prescribed except where considered necessary for the benefit of the community as a whole, or to protect the rights of an inventor for a strictly limited period and under adequate safeguards as regards the general public.

We have long been familiar with the Post Office, the Metropolitan Water Board, the Port of London Authority. More recently there have been set up the British Broadcasting Corporation, the Central Electricity Board, and the London Passenger Transport Board, apart from the quasi-commercial operations of various municipal authorities. Important though costing is in the case of industry privately conducted, where there is a measure of free competition, it is more than ever important in the case of monopolistic trading. In the former case prolonged inefficiency generally leads to bankruptcy, to the loss of the owner or shareholders and creditors generally; whereas in the latter case the loss that follows inefficient administration is borne by the consumers or by the nation as a whole and may continue more or less indefinitely. This monopolistic trading moreover brings into relief the line of demarcation between the sheltered and the unsheltered industries, increases the discontent of those in the unsheltered groups and fosters agitation for further nationalisation or socialisation. To a country like ours whose natural resources are insufficient for our needs, this must lead to disaster unless the administration of all monopolistic trading is of the highest possible order. This can only be achieved by the help of sound cost accounting.

### Periods

We are to prone to regard a period as an absolute and not merely as a relative conception, and to accept a natural measure of time as the standard commercial measure. The year, being the time taken by the earth to make one complete revolution round the sun, is an excellent standard for measuring natural phenomena, but this is not

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a sufficient reason for its wholesale adoption as the ideal standard for business transactions. We are too much the slaves of this "one period" conception and require to work more to varying periods according to the merits and circumstances of the case. This is particularly so in the case of our national budget, which caters for cash income and expenditure for each fiscal year and where the fault of underspending is scarcely less heinous than that of overspending. Such a position involves inevitable tendency towards waste.

It is refreshing to hear of a five-year plan for the roads and of a longer term plan for the railways; and it is important that our national finances should be less circumscribed by the fetish of this close approximation to the cash votes of a year.

Whilst the shortcomings of a long period as the standard are many, the evils of adopting a short period as the standard are far greater; and it would seem that the limit has been reached when some nine million pounds is spent in building a transatlantic liner that can attain a speed sufficiently great to enable it to do the double journey in a week. As a commercial proposition it was clear from the first that it could not pay, but commercial considerations were secondary to those of making the return voyage inside the week.

Let us in so far as is humanly possible have a true conception of the nature of time and beware of adopting a common period for a multiplicity of purposes, or a fixed period for any one purpose.

### Terminology

In view of what the Council has been endeavouring to do for some years past, I hesitate to mention the subject of costing terminology. There is, however, so much looseness in the use of some of the commonest terms that I should like to make a few observations on this subject.

The term "costs" is one that is frequently used to mean selling prices and even at times to mean estimates or quotations. I am not suggesting that cost accountants would use the term in these ways, but in this matter we have a duty to educate others in the use of the term. How often we hear it said that costs fall as production increases? How many of us would, upon reflection, agree with this dogma? It is true that when production increases, whilst the manufacturing facilities remain unchanged, selling prices may be capable of reduction without decreasing profits or increasing losses, but this is a different matter from a reduction in costs. Costs must be related to standards and these standards should not vary with loads or with the level of production. Many concerns, now defunct, would be flourishing to-day had they but realised this and appreciated that the margin between income and expenditure during times of prosperity was not entirely profit to be distributed as dividends. Had they appreciated that the excess of standard or true costs over apparent costs should have been put to reserve against the time when the latter exceeded the former they might have weathered the storm of industrial depression.

